

# **TUCSON WATER**

## **FY 2013 - 2018 Preliminary Financial Plan**

**February 6, 2013  
CWAC**



# THE WATER RATE STUDY PROCESS

## **Revenues and Revenue Requirements**

Is a Revenue increase needed?

*Revenues:* What are projected revenues under existing rates?

*Revenue Requirements:* How much cash is needed to operate, maintain and expand the Utility's systems?



## **Cost of Service Analysis**

Who should pay and how much?

*Cost of Service:* The Revenue Requirements as determined above LESS forecasted *non-water sales revenues* (system equity fee, meter installation fees, service charges, etc).

*Allocation:* The Cost of Service is allocated to Potable and Reclaimed Systems (direct and indirect allocations) and eventually to customer classes (number of service connections, volume of water used, and usage patterns).



## **Rate Design**

How will rates be structured?

How do we balance goals: 1) achieving revenue stability; 2) sending signals to conserve water via pricing; 3) limiting 'pocket book shock' for ratepayers.

# **Tucson Water Financial Planning Policies and Other Financial Issues Impacting the FY 2013 - 2018 Financial Plan**

## **Mayor and Council Water System Financial Policies**

To assist with the task of operating the Water System, the Mayor and Council have adopted water service policies recommended by CWAC (last updated January 1998). A number of these policies establish guidelines for the water financial planning and ratemaking process and include the following:

- Annual debt service coverage of at least **1.75** shall be maintained on all outstanding debt.
- The Utility shall maintain cash reserves adequate for known future obligations plus an allowance for unbudgeted contingencies set at five percent (**5%**) of revenues from water sales.
- Water rates and charges shall be reviewed annually and changes in the rate structure shall be implemented so as to avoid sudden and large-scale shifts in water rates.

## **Tucson Water Revenue Bond Covenants**

Tucson Water's bond covenants require that annual debt coverage of at least **175%** be maintained; however, the bond ordinances require 175% coverage *only as applied to Senior Lien debt* (Water Revenue Bond debt and Water System Revenue Obligations) and not to Tucson Water's Junior Lien debt (Water Finance Infrastructure Authority [WIFA] loans).

If in any year actual Senior Lien coverage does not meet the 175% level, bond covenants would require Tucson Water to make large cash deposits in a restricted account. The amount of the deposit would be between \$15-25 million. Covenants also specify circumstances under which deposited monies may be released. Surety bonds are no longer readily available in the current financial markets.

## **Policies in Recently Adopted Financial Plans**

Recent Financial Plans adopted by Mayor and Council have targeted a cash reserve level of about **\$21-\$24 million**, or about **12.5% - 15%** of annual water sales revenues. The Financial Plan adopted in 2012 maintained this reserve level in all years of the Plan. In the FY 2013 through FY 2018 Plan (the 2013 Plan), the cash reserves are also projected to exceed the official 5% policy, in order to be more consistent with other utilities. Specifically, the 2013 Plan is projected to maintain reserve levels of 13.9% - 16.3% of water sales. An additional metric is the number



of days of working capital/cash reserves which is a criterion utilized by the bond rating agencies to evaluate the financial stability of the Utility. Compared to other Utilities in our rating category (high grade) Tucson Water has a relatively low number of days of working capital/cash reserves. Other Utilities in the same category have anywhere from 120- 570 days of working capital/cash reserves. The proposed 2013 Plan reflects between 85-95 days of working capital/operating reserves in all years of the Plan which is an improvement compared to the FY 2012-2017 Plan (2012 Plan).

The 2012 Plan adopted by Mayor and Council also did not meet the debt service coverage policy for all debt in any year of the Plan; however, the 175% coverage required by the bond ordinance for senior lien debt was met. The 2013 Plan exceeds the 175% coverage on senior lien debt in all years of the Plan. In addition, input from the bond rating agencies indicates that 185% coverage on senior lien debt is desirable to obtain favorable interest rates on debt.

### **Other Policies in the Proposed Financial Plan**

The proposed 2013 Plan includes the following policies as recommended by the City of Tucson's Finance Department and the City's Financial Advisor:

- Debt Financing for new Tucson Water System Revenue Obligations:
  - Term – 20 years
  - Interest rates – 4.2% to 5.3%
  - Payments – Principal and Interest payments in all years
- Calculation of Debt Service Coverage:
  - *Include in revenues available for debt service:*
    - Santa Rita Bel Air fees, Diamond Bell fees, CAP Water Resource fees
    - Developer cash contributions on capital projects

### **On-going Issues - FY 2013**

- *Financing the CIP: Tucson Water will continue to finance part of its capital program with debt financing; a combination of WIFA loans (through FY 2013) and water system revenue obligations until a decision is made to utilize another form of financing.*
- *Tucson Water continues to manage vacancies and is actively filling critical positions impacting maintenance and customer service.*

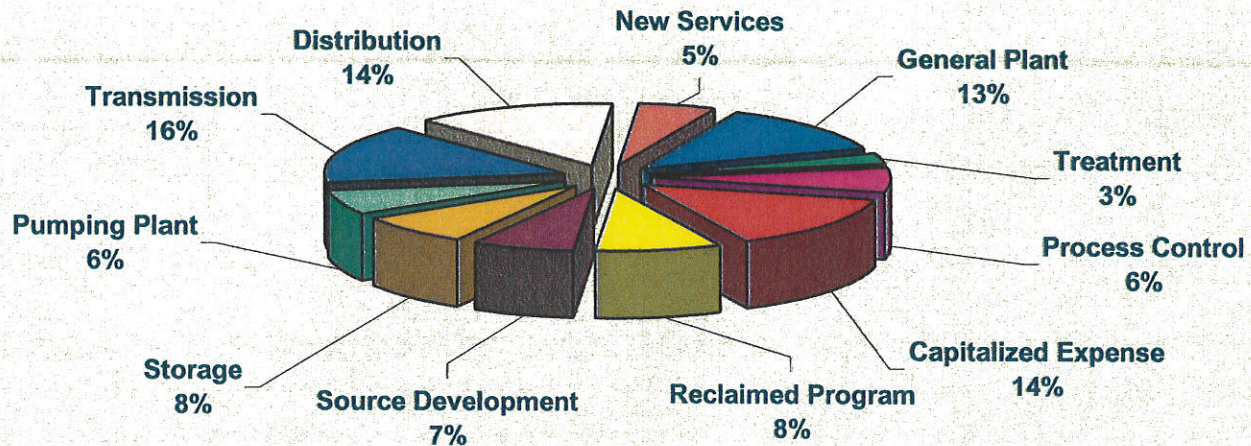
### **Issues for - FY 2014 and Beyond**

- *Home Rule/ State of Arizona Expenditure Limitation Requirements—The City of Tucson Finance Department and Budget office will provide guidance regarding the impact of expenditure limitation issues in future years beyond FY 2014.*

- *In-Lieu-of Property Tax estimated to be approximately \$1,600,000. Currently municipal utilities are exempted from property tax under state statute. This represents an alternative method for the City of Tucson to recover lost property tax revenue that it would have recovered if Tucson Water were a private enterprise. Our research indicates that one major municipality in the State of Arizona, the City of Phoenix, imposes an in-Lieu-of-Property-Tax on a municipal utility. The in-Lieu-of-Property-Tax is reflected in all years of the Financial Plan contingent upon further direction from the Mayor and Council.*
- *Low Income Assistance Program. Tucson Water continues to include funding for a Low Income Assistance Program. The program provides a monthly bill credit to qualifying customers.*
- *Infrastructure Fund. The 2013 Plan utilizes the previously dormant infrastructure fund to identify cash that funds the Capital Program. This mechanism clearly identifies capital program funding and helps to smooth overall revenue increases required in the Plan.*
- *Water Sales/Consumption. The water sales consumption and revenue forecast continues to reflect the downward trend in average annual use per service. The consumption forecast reflects reduction in consumption per single family residential account of about 2.0% per year for FY's 2014-2016 and 1% per year in the last two years of the forecast. Customer account growth is relatively flat in all years of the Plan. The water sales revenue forecast reflects a corresponding decline in revenue.*



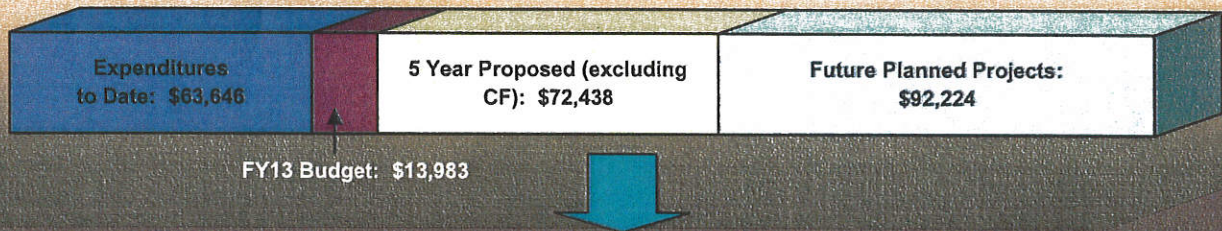
**FY2014 - FY2018  
CAPITAL BUDGET \$338.9 Million**



**Major CIP Projects in FY2014 - FY2018  
(\$000's)**

	Total Project Budget	5-Year Budget	Complete
Avra Valley Transmission Main Phase I & II , W410, W762	\$55,472	\$33,591	2020
Meter Replacement, W435, W716	Annual	\$32,647	Annual
Reservoir and Tank Rehab Program, W736, W798	Annual	\$25,068	Annual
Road Improvement Main Replacements, W111	Annual	\$22,950	Annual
SCADA Improvements, W782, W783	\$20,839	\$20,659	2017
Hayden-Udall Prime Reservoir and Booster, W795	\$15,232	\$15,182	2018
Southeast Houghton Area Recharge Project, W797	\$8,178	\$7,761	2017
Sahuarita Supply Slip Liner, W796	\$7,200	\$7,120	2015
Santa Cruz Wellfield Upgrade and Re-Equip Well W759, W857	\$7,580	\$6,375	2015
New Well Equipping, W035	Annual	\$5,273	Annual
Advanced Oxidation Treatment Plant, W727	\$18,122	\$4,900	2014
Bilby B Zone Reservoir C Zone Booster	\$25,152	\$780	2020
<b>Total</b>		<b>\$182,306</b>	

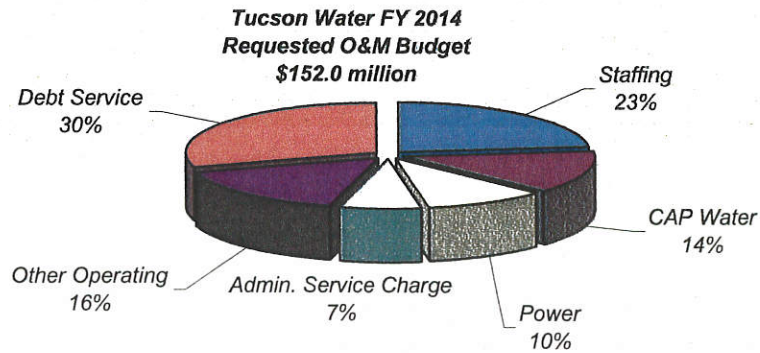
**Renewable Potable Water Supply Project Status (\$000's)**



**Renewable Potable Water Supply Projects in Proposed 5 Year CIP (\$000's)**

Project	5 Year Total	Project	5 Year Total
Avra Valley TM Augmentation Phase I and II	33,491	SAVSARP Avra Valley Recovered Main	1,529
Hayden-Udall Prime Reservoir and Booster	15,082	Avra Valley D-Zone PRV	1,501
Sahuarita Supply Slipliner	7,120	Santa Cruz Wells - Re-Equipping	1,275
Santa Cruz Wellfield Upgrade	4,750	Bilby B-Zone Reservoir C-Zone Booster	780
CAVSARP Well Pump Improvements	3,072	Clearwell Outlet Valve	509
SAVSARP Collector Lines Phases II & III	2,671	Drexel Road to Nebraska A-Zone	363
		Santa Cruz SC-8 Well Collector Line	295
		<b>Total (excluding Carryforward):</b>	<b>\$ 72,438</b>





### FY 2014 Operating Budget Request

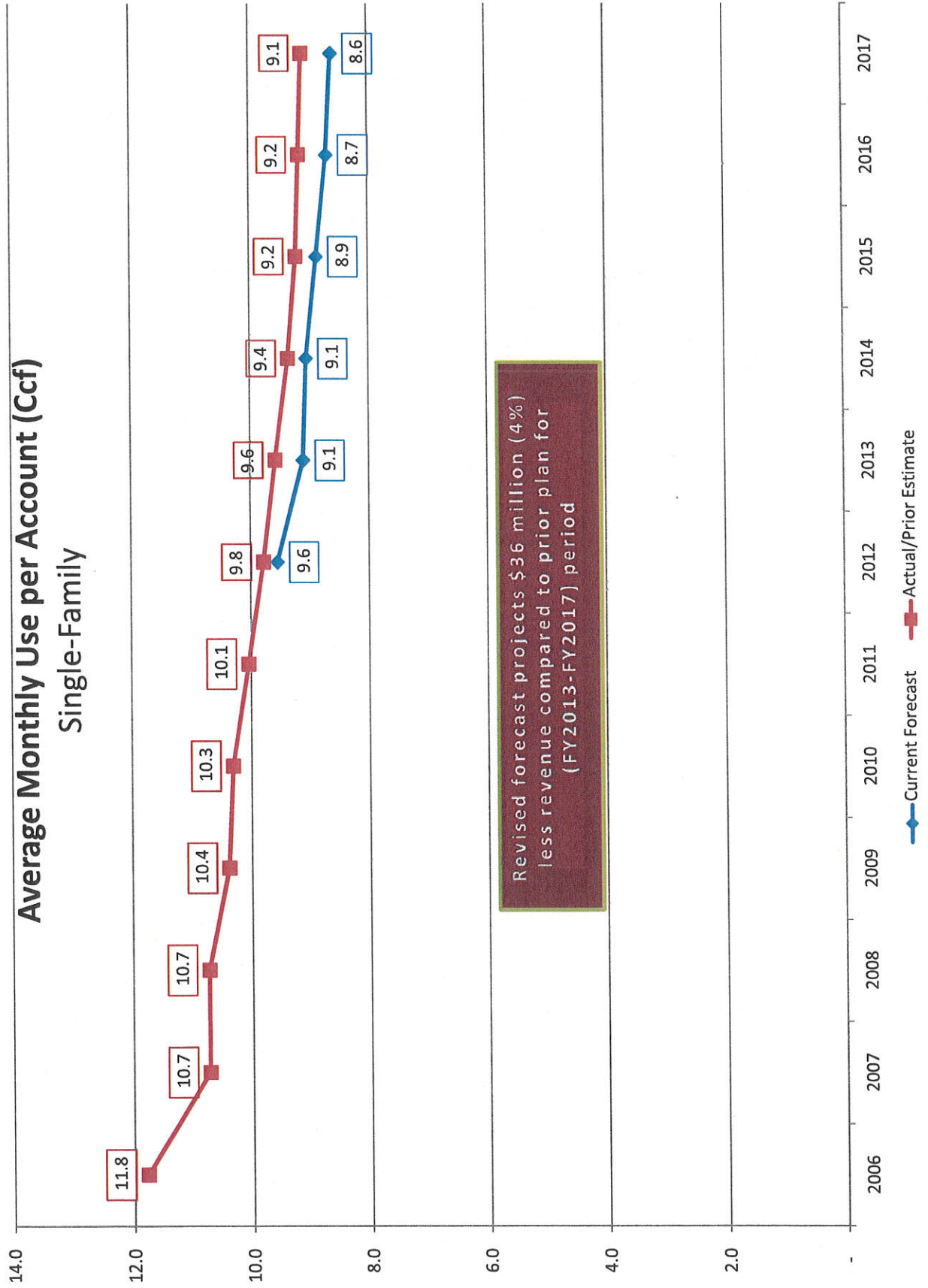
	FY 2013 Adopted Budget*	FY 2014 Request	Change
Requested O&M Budget	\$149,485,480	\$152,037,360	\$2,551,880
Less Debt Service	43,383,800	45,116,380	1,732,580
Less Salaries/Wages	35,709,570	35,048,820	(660,750)
Remaining O&M	<u>\$70,392,110</u>	<u>\$71,872,160</u>	<u>\$1,480,050</u>

\* Revised to Reflect reduction on Debt Service

### Comparison Major O&M Elements

	FY 2013 Adopted	FY 2014 Request	Change From FY 2013 Adopted
CAP Water -Commodity	\$17,770,640	\$18,696,790	\$926,150
CAP Water - Capital	2,162,580	2,603,750	441,170
Power (Electricity/Gas )	15,681,460	15,549,390	(132,070)
Admin. Service Charge (indirect)	6,712,540	6,712,540	0
Admin. Service Charge (direct)	3,749,500	3,970,870	221,370
Legal	400,000	408,000	8,000
Bank Services	681,710	914,000	232,290
Test Services	413,500	408,960	(4,540)
Liability Insurance	1,328,080	1,347,700	19,620
Cell Phones,Telephone & Aircards	550,680	569,050	18,370
Community Relations	506,500	457,500	(49,000)
O&M Maint. (Services and Commodities)	8,424,050	8,630,560	206,510
Postage	1,357,000	1,422,770	65,770
Fuel	1,007,000	1,173,140	166,140
Furniture, Equip & Computers < \$5000	640,200	773,490	133,290
Conservation Fund	3,356,820	2,950,000	(406,820)
Capital Equipment > \$5,000	1,290,250	1,778,650	488,400
Software Maintenance & Purchases	757,300	789,440	32,140
Low Income Program	517,000	525,000	8,000
Chemicals	1,142,800	1,617,010	474,210
Travel & Training	263,790	258,360	(5,430)
ADWR Municipal Fee	795,000	0	(795,000)
Other	883,710	315,190	(568,520)
<b>TOTAL</b>	<u>\$70,392,110</u>	<u>\$71,872,160</u>	<u>\$1,480,050</u>

# Average Monthly Use per Account (Ccf) Single-Family





# Comparison of Annual Revenue Requirements from Rates (Current Plan vs. Prior Plan)

1,000's (\$)

\$250,000

\$200,000

\$150,000

\$100,000

\$50,000

\$-

Transfer (Infrastructure)  
Cash Funded Capital  
Debt Service  
Taxes  
O&M

Prior Current  
FY 2013  
FY 2014  
FY 2015  
FY 2016  
FY 2017



# TUCSON WATER FINANCIAL PLAN

FY2013-FY2018

Preliminary 2-06-2013

(\$1,000)

LINE #		Fiscal Years Ending June 30:					
		FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
1	Projected Beginning Operating Working Capital	\$34,410	\$23,470	\$25,708	\$23,567	\$24,465	\$25,167
2	Beginning Infrastructure Fund	\$3,000	\$20,853	\$12,190	\$1,263	\$1,289	\$527
<b>PROJECTED REVENUES:</b>							
3	Water Sales (existing rates)	\$148,572	\$145,468	\$143,220	\$141,009	\$140,136	\$139,273
4	Water Sales Increases from Rate Adjustments:						
	FY 2014            8.30%		\$12,074	\$11,887	\$11,704	\$11,631	\$11,560
	FY 2015            8.30%			\$11,887	\$11,704	\$11,631	\$11,560
	FY 2016            8.30%				\$11,704	\$11,631	\$11,560
	FY 2017            8.30%					\$11,631	\$11,560
	FY 2018            8.30%						\$11,560
	Total from Rate Adjustments		\$12,074	\$23,774	\$35,111	\$46,525	\$57,798
5	Water Sales (including Rate Adjustments)	\$148,572	\$157,542	\$166,994	\$176,121	\$186,661	\$197,071
6	Other Water Revenues/Sources	\$12,748	\$12,226	\$12,295	\$12,379	\$12,509	\$12,661
6A	System Equity Fee	\$2,371	\$2,371	\$2,371	\$2,371	\$2,371	\$2,371
6B	CAP Water Resource Fee	\$350	\$350	\$350	\$350	\$350	\$350
7	Total Revenues/Sources	\$164,041	\$172,489	\$182,010	\$191,220	\$201,892	\$212,452
<b>PROJECTED REQUIREMENTS:</b>							
8	O & M Expense	\$79,197	\$87,742	\$89,899	\$93,480	\$96,208	\$98,852
9	Utility Tax Embedded in Water Sales Revenues	\$3,869	\$4,090	\$4,325	\$4,551	\$4,814	\$5,074
10	Debt Service	\$43,384	\$45,116	\$52,613	\$55,555	\$58,584	\$62,137
11	Other Requirements	\$1,758	\$2,501	\$2,492	\$2,751	\$2,823	\$2,798
12	In Lieu of Tax	\$1,600	\$1,600	\$1,600	\$1,600	\$1,600	\$1,600
13	Low Income Program	\$517	\$525	\$540	\$555	\$571	\$591
14	Transfer to Infrastructure Fund	\$17,853	\$1,337	\$3,323	\$26	\$738	\$704
15	Capital from Water Revenues	\$17,941	\$18,436	\$20,201	\$22,382	\$26,160	\$26,937
16	Administrative Service Charge(direct/indirect)	\$8,861	\$8,905	\$9,158	\$9,421	\$9,691	\$10,020
17	Total Requirements	\$174,980	\$170,251	\$184,151	\$190,322	\$201,190	\$208,713
18	Projected Ending Operating Working Capital/Reserve	\$23,470	\$25,708	\$23,567	\$24,465	\$25,167	\$28,907
19	Estimated Reserves As % of Sales Revenue	15.8%	16.3%	14.1%	13.9%	13.5%	14.7%
20	Estimated Reserves as Days of O&M	95	95	85	85	85	95
<b>OTHER SIGNIFICANT DATA/PROJECTIONS:</b>							
21	% Increases: Water Sales Rates/Revenue	N/A	8.3%	8.3%	8.3%	8.3%	8.3%
22	Debt Service Coverage (All Debt)	173.0%	166.0%	160.0%	161.0%	166.0%	168.0%
22a	Coverage: Senior Lien Debt	206.0%	197.0%	185.0%	185.0%	188.0%	189.0%
23	Total Capital Improvement Program (CIP)	\$68,811	\$67,382	\$68,664	\$56,499	\$78,232	\$68,081
<b>Debt Sales:</b>							
24	Water System Revenue Obligations/Bonds	\$23,368	\$36,106	\$34,155	\$43,990	\$44,375	\$39,781
25	WIFA Loan	\$13,318	\$0	\$0	\$0	\$0	\$0
26	% of CIP from Current Revenue	42%					





FY 2013 RATE PROCESS CALENDAR Next Steps February 6, 2013	
<b>Water Rates //Growth Related Fees</b>	
February 6, 2013	CWAC: Vote on Miscellaneous Fees
February 6, 2013	CWAC: Vote on Financial Plan
February 11 - March 4, 2013	Mayor and Council Meet with Council Offices on Financial Plan
<b>Class Revenue Target / Rate Design</b>	
Early March	Staff conducts COS study
March 6-15, 2013	CWAC Finance Sub-committee COS/Revenue Targets to Finance Sub-Committee -vote to approve (or not) Present Rate Schedule to Finance Sub-Committee - vote to approve
Mid March, 2013	Presentation of Rate Schedule to City Manager
Mid March, 2013 (by March 16th)	E-mail COS/ Revenue Targets/ Rate Schedule to all CWAC members
March 20, 2013	<b>CWAC SPECIAL MEETING</b> <b>CWAC vote on Rate Schedule</b> (update to City Manager)
March 21 - April 15, 2013	Mayor & Council /Stakeholders Meet with Council Offices on Rate Schedules
<b>Legal Process</b>	
March 5, 2013	M&C NOI Miscellaneous Fees
March 5, 2013	M&C Vote Financial Plan
April 16, 2013	Presentation to M&C on FY 2014 Proposed Water Rate schedule M&C Notice of Intent to increase Water Rates
May 22, 2013	M&C Public Hearing / Vote to Adopt (or not) FY 2014 Proposed Rate Schedule and Miscellaneous Fees
July 1, 2013	New Water Rates and Growth Related Fees take effect